



Q3 FY03/24

Message from Koji Obuchi, President and CEO of CROOZ Group

February 13, 2024

Earlier today, on February 13, 2024, we announced our financial results for Q3 FY03/24. As president and CEO of the Group, I would like to share my thoughts and impressions to give you a better understanding of our current situation.

In cumulative Q3 FY03/24, the Group posted consolidated transaction value of JPY19,456mn (-15.3% YoY), consolidated operating profit of JPY253mn (-50.3% YoY), and consolidated net profit<sup>1</sup> of JPY1,182mn (+446.5% YoY). In Q3 (three months), we reported consolidated transaction value of JPY6,888mn (-14.3% YoY), consolidated operating loss of JPY292mn (operating profit of JPY412mn in Q3 FY03/23), and consolidated net profit of JPY112mn (-50.1% YoY). I would like to share key takeaways from each business segment results, as below.

In the SHOPLIST business, in cumulative Q3 FY03/24, transaction value came to JPY13,304mn (-18.6% YoY) and operating profit to JPY284mn (operating loss of JPY16mn in cumulative Q3 FY03/23). In Q3 (three months), transaction value was JPY4,964mn (-14.8% YoY) and operating profit was JPY171mn (+130.8% YoY). The business continued to struggle, with transaction value remaining below the year-ago levels.

The main reason for the year-on-year decline in transaction value was an ongoing decrease in the number of visitors, which in turn was caused by a drop in the number of visitors through SEO and advertisements, as mentioned in the previous year's results briefing. To summarize, competition in the apparel e-commerce field has intensified, and it has become even more difficult than ever to attract customers. To achieve a full recovery in the number of visitors and transaction value in the SHOPLIST business, we would not only need to drastically overhaul the way we draw in customers, but also must fundamentally change our business model, rather than relying solely on the SHOPLIST business. As part of efforts to transform our business model, we plan to actively venture into new business areas. More specifically, we will ramp up business development in the GameFi domain.

In Q3 FY03/24, the CROOZ Blockchain Lab (hereinafter, "CBL"), which is in charge of GameFi operations, reported sales of JPY344mn and operating loss of JPY453mn. Sales were down JPY218mn from the JPY562mn recorded in Q2, and operating profit was down JPY648mn from the JPY195mn posted in Q2. The factors that make up the sales of this business are mainly: (1) in-game purchases and sales on the game marketplace, (2) marketplace transaction fees, (3) the

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<sup>1</sup> Net profit/loss attributable to owners of the parent.



impact of token price fluctuations, and (4) contracted development sales for new games, as stated in the FAQ section on our website. The decrease in sales in Q3 was primarily due to a significant reduction in (4) contracted development sales for new games. While the development costs for new games are covered by the counterparty, CBL is responsible for development costs in the event of a delay. Its lower contracted development sales for new games in Q3 were the result of it bearing additional development costs stemming from the postponement of the release of *Elemental Story World* from the initial planned date and a longer-than-expected development time for *Ergosum*. It should be noted that PROJECT XENO was not responsible for the decrease in sales. As for the main reason for the decrease in operating profit, in addition to the decline in contracted development sales, it is attributed to the inclusion of costs for a large-scale promotion that started in October and an increase in development costs just before the release of *Elemental Story World*.

Regarding individual game performance, we rolled out large-scale promotions for PROJECT XENO in October, including TV commercials, and implemented in-game initiatives. However, the expected effects did not materialize. As a result, both sales and operating profit fell significantly in October and November. However, we immediately took steps to improve the situation. In December, there was a rapid recovery due to the sale of the new class “Necromancer” and other factors, and excluding June 2023, which had an exceptional factor of a sudden increase in NFT demand right after release, PROJECT XENO achieved the highest sales to date. As a result, Q3 sales recovered to a level almost equivalent to Q2. PROJECT XENO continued to perform well in January 2024 as it did in December, and we expect it to continue to grow steadily moving forward.

We were able to release the second blockchain game to follow PROJECT XENO—*Elemental Story World*—on January 15, 2024. It is still too early to make any comments with confidence as the title was just released. However, we have high expectations due to the relatively strong performance of the presale events conducted in September and November, as well as the fact that the number of installations in the first two days exceeded 130,000, or more than double that of PROJECT XENO. We are also actively working on the development of the third blockchain game, *Ergosum*. We will make timely disclosures as necessary regarding future plans.

GameFi is a global market, and to aim for even greater success, we intend to aggressively invest in the GameFi business, rather than being overly concerned about short-term profits. In Q3, we were unable to achieve significant success in large-scale promotions, resulting in significant losses. However, we intend to leverage this experience and continue to aggressively invest in the business to capture substantial profits in the medium to long term, rather than focusing on short-term gains.



Rank King, the core of the Media business, posted sales of JPY724mn (+13.9% YoY) and operating profit of JPY176mn (+36.9% YoY) in cumulative Q3 FY03/24, and sales of JPY244mn (-4.9% YoY) and operating profit of JPY45mn (-19.1% YoY) in Q3 (three months). Business progressed smoothly overall despite a slight decline in Q3 (three months) sales. We intend to allocate the profit generated to efforts aimed at expanding the transaction value of Rank King, and to further increase the transaction value, we will make additional investments in the business as necessary. As in 1H, sales and operating profit for the Media business overall fell year-on-year, but as announced in February 2023, this was because a contract with a major client came to an end in the advertising agency business, which was handled by a subsidiary other than Rank King. We have positioned Rank King as the mainstay business for the Media business, and anticipate the Media business to grow sharply in the medium to long term.

Our focus going forward is GameFi. For blockchain games in the GameFi field in particular, which is a global market, as well as a domestic one, we will fully utilize the know-how we have cultivated to date in game development to increase the probability of success, as the business has the potential to bring in enormous profits in the future. Apart from GameFi, we will also cultivate new sources of earnings in new business areas.

February 13, 2024

Koji Obuchi